

PERAC AUDIT REPORT



Hampden County Regional Contributory Retirement System



JAN. 1, 2002 - DEC. 31, 2004 / PERAC 04: 12-007-37



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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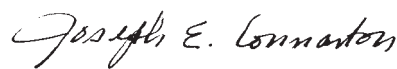
March 7, 2007

The Public Employee Retirement Administration Commission has completed an examination of the Hampden County Regional Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, 2002 to December 31, 2004. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Robert Madison and Harry Chadwick who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Hampden County Regional Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

1. Board Member Insurance:

A review of warrants approved by the Board indicates that the Board pays the insurance premiums of some Board members at the rate of 90% paid by the Retirement Board and 10% paid by the individuals.

G.L. c. 34B, §19(6)(i), with respect to Regional Retirement Boards, provides that the “group insurance commission shall make available to board members and employees of a regional retirement board health, life and disability benefits, and said board members and employees shall be eligible to participate in all benefits administered by the group insurance commission. The costs thereof, including any administrative costs incurred by the group insurance commission shall be borne by said employees and board members and the regional retirement system.

Any benefits provided, prior to the abolition of county government, to employees and retirees of a regional retirement system that are not available through the group insurance commission may be provided to such employees and retirees through the regional retirement system; provided, however, that said system is fully reimbursed, in the case of retirees, for the cost of such benefits, and, in the case of employees, is reimbursed in a percentage equal to that of the percentage paid by state employees for similar benefits.”

Recommendation:

Board members of the Hampden County Regional Retirement System are eligible for insurance but the cost of insurance must be paid by the Board members in the manner described in G.L. c. 34B, § 19(6)(i).

2. Membership Contributions:

Based on inspection and inquiry, it was determined that the Hampden County Regional Retirement Board lacks a uniform method of correctly reporting monthly membership payroll. The Hampden County Regional Retirement Board administers thirty-five (35) governmental units. 30 of the 35 units did not report “Other Earnings” which makes it impossible to determine if “Regular Earnings” is exclusive of earnings not subject to pension deductions such as Overtime or Police Detail pay.

Recommendation:

Reporting of member contributions should be made on a prescribed form for all member units. The prescribed form should be consistent with G.L. c. 32 § 22(1)(h) and include the following member information: 1) name; 2) social security number or employee number; 3) compensation by type: total, regular, overtime, and 2% excess; 4) contribution amount; 5) contribution rate; and 6) any other member information deemed appropriate.

The previous PERAC audit for period ending December 31, 2001 contained the same determination that it was also impossible to determine the types of earnings in “Regular Earnings”. It is the auditor’s recommendation that the Board verify by periodic sampling or other means to make sure that “Regular Earnings” is exclusive of earnings not subject to pension deductions such as Overtime or Police Detail pay.

Hampden County Regional Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

Board Response:

As we (the Board) have previously stated to you, in a County system there are any number of different computer generated reports and systems used by our member units even varying insofar as departments within the units. If PERAC were to generate and mandate a required report and format that report, we could then provide that to our member units and they, in turn, would be able to have their individual software providers make the changes at no cost. Until that happens, we have been told that it would be very expensive, and the individual member units are not willing to go to that expense if they believe that a mandated reporting requirement would not cost any money.

3. Regular Wages:

The Hampden County Regional Retirement Board has a policy of disallowing as regular wages earnings from a second position in a member unit. The Board considers a second position as temporary if it is subject to a periodic or an annual appointment or reappointment. For example, during an examination of regular earnings in a member town, a retirement member who is a Parks and Recreation employee performs an additional task of coaching. Earnings from coaching are not subject to retirement.

Recommendation:

Regular wages must include wages earned from a second position in a member unit or units. The Hampden County Regional Retirement Board must change its policy of disallowing as regular wages earnings from a second position in a member unit.

Board Response:

A memo advising all member unit treasurers of the change in the withholding of retirement deductions for multi-employed individuals was issued effective January 1, 2007 with a request that information regarding prior year's applicable wages be forwarded to this office. We apologize for the confusion and for not providing this written statement earlier.

Final determination

PERAC audit staff will follow-up in six (6) months to ensure that the appropriate actions have been taken regarding all findings.

Hampden County Regional Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2004	2003	2002
Cash	\$3,289,448	\$2,880,502	\$5,251,519.36
Short Term Investments	2,939,686	0	0
Fixed Income Securities (at book value)	16,657,018	25,595,005	28,018,093
Equities	3,008	0	31,253,832
Pooled Domestic Equity Funds	92,279,466	83,938,107	32,566,531
Pooled International Equity Funds	21,927,735	17,146,886	11,187,718
Pooled Global Fixed Income Funds	34,149,238	32,473,116	29,587,944
Pooled Alternative Investment Funds	4,912,253	4,213,086	3,407,443
Pooled Real Estate Funds	10,008,138	6,957,385	5,049,987
Interest Due and Accrued	153,077	197,542	267,845
Accounts Receivable	446,292	508,417	567,216
Accounts Payable	0	0	0
TOTAL	<u>\$186,765,359</u>	<u>\$173,910,046</u>	<u>\$147,158,128</u>
FUND BALANCES			
Annuity Savings Fund	\$56,562,816	\$54,304,438	\$51,460,081
Annuity Reserve Fund	18,098,530	17,099,883	15,812,464
Pension Fund	0	768,533	5,744,871
Military Service Fund	13,987	13,904	7,492
Expense Fund	0	0	0
Pension Reserve Fund	<u>112,090,026</u>	<u>101,723,389</u>	<u>74,033,220</u>
TOTAL	<u>\$186,765,359</u>	<u>\$173,910,146</u>	<u>\$147,058,128</u>

Hampden County Regional Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2002)	\$47,613,104	\$15,424,712	\$11,532,455	\$7,389	\$0	\$94,145,148	\$168,722,807
Receipts	6,903,128	460,799	9,568,234	103	1,394,628	(19,972,982)	(1,646,089)
Interfund Transfers	(2,068,336)	2,050,544	156,738	0	0	(138,946)	0
Disbursements	(987,815)	(2,123,590)	(15,512,556)	0	(1,394,628)	0	(20,018,590)
Ending Balance (2002)	51,460,081	15,812,464	5,744,871	7,492	0	74,033,220	147,058,128
Receipts	6,813,843	495,007	11,142,519	6,412	1,317,172	27,678,654	47,453,607
Interfund Transfers	(3,107,500)	3,105,520	(9,434)	0	0	11,415	(0)
Disbursements	(861,986)	(2,313,108)	(16,109,423)	0	(1,317,172)	0	(20,601,689)
Ending Balance (2003)	54,304,438	17,099,883	768,533	13,904	0	101,723,289	173,910,046
Receipts	6,540,149	526,598	12,624,230	83	1,429,073	14,251,419	35,371,553
Interfund Transfers	(2,941,752)	2,919,765	3,906,670	0	0	(3,884,683)	0
Disbursements	(1,340,019)	(2,447,716)	(17,299,433)	0	(1,429,073)	0	(22,516,240)
Ending Balance (2004)	<u>\$56,562,816</u>	<u>\$18,098,530</u>	<u>\$0</u>	<u>\$13,987</u>	<u>\$0</u>	<u>\$112,090,026</u>	<u>\$186,765,359</u>

Hampden County Regional Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2004	2003	2002
Annuity Savings Fund:			
Members Deductions	\$5,996,203	\$5,879,325	\$5,649,272
Transfers from other Systems	105,809	307,118	390,239
Member Make Up Payments and Redeposits	98,813	88,192	217,293
Member Payments for Rollovers	29,121	50,775	0
Investment Income Credited to Member Accounts	310,203	488,433	646,324
Sub Total	<u>6,540,149</u>	<u>6,813,843</u>	<u>6,903,128</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>526,598</u>	<u>495,007</u>	<u>460,799</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems/Comp	297,634	276,762	291,174
Received from Commonwealth for COLA and Survivor Benefits	397,291	684,061	905,673
Pension Fund Appropriation/Military contribution	<u>11,929,305</u>	<u>10,181,696</u>	<u>8,371,388</u>
Sub Total	<u>12,624,230</u>	<u>11,142,519</u>	<u>9,568,234</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	6,304	0
Investment Income Credited Military Service Fund	<u>83</u>	<u>108</u>	<u>103</u>
Sub Total	<u>83</u>	<u>6,412</u>	<u>103</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>1,429,073</u>	<u>1,317,172</u>	<u>1,394,628</u>
Sub Total	<u>1,429,073</u>	<u>1,317,172</u>	<u>1,394,628</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	89,924	78,178	96,419
Pension Reserve Appropriation	98,352	13,036	14,430
Interest Not Refunded	14,776	13,566	10,890
Miscellaneous Income	3,117	31,393	123,998
Excess Investment Income	<u>14,045,251</u>	<u>27,542,481</u>	<u>(20,218,720)</u>
Sub Total	<u>14,251,419</u>	<u>27,678,654</u>	<u>(19,972,982)</u>
TOTAL RECEIPTS	<u>\$35,371,553</u>	<u>\$47,453,607</u>	<u>(\$1,646,089)</u>

Hampden County Regional Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

FOR THE PERIOD ENDING DECEMBER 31,			
Annuity Savings Fund:	2004	2003	2002
Refunds to Members	\$870,703	\$629,548	\$549,324
Transfers to other Systems	<u>469,316</u>	<u>232,438</u>	<u>438,491</u>
Sub Total	<u>1,340,019</u>	<u>861,986</u>	<u>987,815</u>
Annuity Reserve Fund:			
Annuities Paid	2,341,071	2,174,399	1,995,233
Option B Refunds	<u>106,645</u>	<u>138,709</u>	<u>128,357</u>
Sub Total	<u>2,447,716</u>	<u>2,313,108</u>	<u>2,123,590</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	11,594,197	10,691,474	9,715,087
Survivorship Payments	706,330	690,571	665,289
Ordinary Disability Payments	307,352	324,966	309,022
Accidental Disability Payments	2,191,743	2,276,812	2,189,654
Accidental Death Payments	623,646	541,722	526,117
Section 101 Benefits	95,500	84,952	68,011
3 (8) (c) Reimbursements to Other Systems	1,780,665	1,498,927	2,039,373
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>17,299,433</u>	<u>16,109,423</u>	<u>15,512,554</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	29,000	29,000	27,000
Salaries	180,118	192,055	210,701
Legal Expenses	41,701	66,226	65,773
Medical Expenses	51	20	46
Fiduciary Insurance	17,711	6,728	0
Service Contracts	15,839	15,551	0
Travel Expenses	7,320	2,884	4,311
Administrative Expenses	122,873	104,402	137,432
Furniture and Equipment	9,751	1,688	2,049
Management Fees	933,493	820,741	875,290
Custodial Fees	23,216	29,877	36,526
Consultant Fees	<u>48,000</u>	<u>48,000</u>	<u>35,500</u>
Sub Total	<u>1,429,073</u>	<u>1,317,172</u>	<u>1,394,628</u>
TOTAL DISBURSEMENTS	<u>\$22,516,240</u>	<u>\$20,601,689</u>	<u>\$20,018,588</u>

Hampden County Regional Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2004	2003	2002
Investment Income Received From:			
Cash	\$54,580	\$74,739	\$148,928
Short Term Investments	12,785	0	0
Fixed Income	1,367,742	1,792,847	1,901,189
Equities	12,168	443,194	475,788
Pooled or Mutual Funds	4,351,994	2,981,477	3,795,855
Commission Recapture	<u>0</u>	<u>12,678</u>	<u>15,570</u>
TOTAL INVESTMENT INCOME	<u>5,799,269</u>	<u>5,304,935</u>	<u>6,337,329</u>
Plus:			
Increase in Amortization of Fixed Income Securities			
Realized Gains	5,378,520	4,043,711	2,781,795
Unrealized Gains	21,151,655	33,750,234	12,821,563
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>153,077</u>	<u>197,542</u>	<u>267,845</u>
Sub Total	<u>26,683,251</u>	<u>37,991,488</u>	<u>15,871,203</u>
Less:			
Decrease in Amortization of Fixed Income Securities			
Paid Accrued Interest on Fixed Income Securities	137,916	449,187	241,019
Realized Loss	2,954,164	7,762,167	11,694,764
Unrealized Loss	12,881,690	4,974,023	27,697,831
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>197,542</u>	<u>267,845</u>	<u>291,821</u>
Sub Total	<u>16,171,312</u>	<u>13,453,222</u>	<u>39,925,433</u>
NET INVESTMENT INCOME	<u>16,311,208</u>	<u>29,843,200</u>	<u>(17,716,901)</u>
Income Required:			
Annuity Savings Fund	310,203	488,433	646,324
Annuity Reserve Fund	526,598	495,007	460,763
Military Service Fund	83	108	103
Expense Fund	<u>1,429,073</u>	<u>1,317,172</u>	<u>1,394,628</u>
TOTAL INCOME REQUIRED	<u>2,265,957</u>	<u>2,300,720</u>	<u>2,501,819</u>
Net Investment Income	<u>16,311,208</u>	<u>29,843,200</u>	<u>(17,716,901)</u>
Less: Total Income Required	<u>2,265,957</u>	<u>2,300,720</u>	<u>2,501,819</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$14,045,251</u>	<u>\$27,542,481</u>	<u>(\$20,218,720)</u>

Hampden County Regional Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(Percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$3,289,448	1.77%
Short Term	2,939,686	1.58%
Fixed Income	16,657,018	8.95%
Equities	3,008	0.00%
Pooled Domestic Equity Funds	92,279,466	49.57%
Pooled International Equity Funds	21,927,735	11.78%
Pooled Global Fixed Income Funds	34,149,238	18.34%
Pooled Alternative Investment Funds	4,912,253	2.64%
Pooled Real Estate Funds	10,008,138	5.38%
GRAND TOTALS	<u>\$186,165,990</u>	<u>100.00%</u>

For the year ending December 31, **2004**, the rate of return for the investments of the **Hampden County Regional Retirement System** was 9.66%. For the five-year period ending December 31, **2004**, the rate of return for the investments of the **Hampden County Regional Retirement System** averaged 3.74%. For the nineteen-year period ending December 31, **2004**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Hampden County Regional Retirement System** was 10.24%.

Hampden County Regional Retirement System
SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

The **Hampden County Regional** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

May 15, 2000

In accordance with PERAC memo # 44/1999, all self imposed investment restrictions regulating the Board's percentage holdings in specific asset classes have been rescinded.

October 8, 2003

In accordance with PERAC Investment Guideline 99-2, the Hampden County Regional Retirement Board is authorized to make some minor modifications to its large cap equity mandate with Freedom Capital Management.

First, as part of its portfolio rebalancing, the Board will initiate an investment in Freedom's "Style-Weighted Concentrated Fund". Run by the same portfolio management team as the board's existing accounts, this new fund is a "best ideas" fund that operates in the same investment universe as the large cap growth, large cap value, and equity style products in which the board currently invests.

Second, the Board's large cap growth and large cap value accounts will be changed from separate accounts to commingled funds. With no change in strategy or in the portfolio management team, the Board expects to achieve administrative efficiencies from these changes.

Hampden County Regional Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Hampden County Regional Retirement System** member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year.

Hampden County Regional Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Hampden County Regional Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Hampden County Regional** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

I. MINIMUM EARNINGS REQUIRED FOR MEMBERSHIP

All employees including elected or appointed officials must earn more than **two hundred dollars** in a calendar year for at least one year in order to be eligible for membership in the retirement system. Once this requirement is met, the individual remains a member of the retirement system even if he or she earns less than **two hundred dollars** in a calendar year thereafter.

Hampden County Regional Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

II. REQUIREMENTS FOR MEMBERSHIP

- A. A permanent full-time employee of any member unit of the Hampden County Retirement System shall become a member of the Hampden County Retirement System on the first day of employment.
- B. A part-time permanent employee who normally works more than twenty hours per week shall become a member of the Hampden County Retirement System on the first day of employment.
- C. A seasonal employee who normally works more than twenty hours per week for five months or more in a year shall become a member of the Hampden County Retirement System on the first day of employment.
- D. Part-time employees whose normal work week is twenty hours or less and seasonal employees whose normal work week is less than twenty hours or who are employed less than five months in a year, temporary or provisional employees shall not become members of the Hampden County Retirement System until they meet one of the requirements set out in Regulation II. A, B or C above.
- E. Elected officials shall continue to have the option of joining the Hampden County Retirement System in accordance with General Laws Chapter 32 section 3 (2) (a) (vi) provided the official meets the requirements of Regulation I above.

III. CREDITABLE SERVICE FOR LESS THAN PERMANENT FULL-TIME EMPLOYEMENT

- A. All employees who are members of the Hampden County Retirement System who are full time permanent, part time, temporary, provisional or seasonal employees shall receive full creditable service for service rendered during his or her period of membership in the retirement system or for any period of creditable service purchased as prior service pursuant to regulation IV.

IV. BUY BACK OF CREDITABLE SERVICE

- A. For any employee who is not a member of the Hampden County Retirement System on the first day of employment, that employee shall be allowed to buy back their service with a member unit as a non-member regardless if the employee made contributions to social security. However, an employee who is a member of the Hampden County Retirement System shall not be eligible to buy-back service credit for service rendered as a non-member if the employee did not earn at least **one thousand five hundred dollars** in a calendar year for the year the buy back is being requested.

V. CREDITABLE SERVICE FOR CALL FIREFIGHTERS AND PERMANENT INTERMITTENT OR RESERVE POLICE OFFICERS

- A. The Board shall credit as full-time service not to exceed a maximum of five years that period of time during which a reserve or permanent-intermittent police officer or a reserve, permanent-intermittent or call firefighter was on his respective list and was eligible for assignment of duty subsequent to his appointment, and provided that such service as a reserve or permanent-intermittent police officer or call firefighter was later appointed as a permanent member of the fire department or police department.
- B. Creditable service for a call firefighter or reserve or permanent-intermittent police officer shall be credited with one year of full creditable service for every two full years of service as a reserve or permanent-intermittent police officer or call firefighter, as consistent in Section 4 (2)(b) of Chapter 32.

Hampden County Regional Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

C. A call firefighter who is elected in a manner prescribed by the General Laws shall be credited with one year of creditable service for each year as an elected firefighter.

VI. HAMPDEN COUNTY REGIONAL REGULATION APPROVED 09-25-00

The board authorizes, after approval of an application for disability retirement by the Retirement Board at a formal meeting, the Executive Director or in his absence the Assistant Director to sign the PERAC transmittal form regarding that disability.

Hampden County approved in part and disapproved in part 05/05/00 approved in part and not approved in part. The following rule is approved as follows:

Public Officials Regulation

A person appointed by the Mayor, Board of Selectmen, Town Council or Retirement Board, to serve as a member of a public Board or Commission or as public official in a member unit of the Hampden County Regional Retirement System including but not limited to member of the Retirement Board, Planning Board, Board of Public Health, Town Counsel, Assessor, Legal Counsel, Police Chief or Fire Chief, shall be entitled to membership in the Hampden County Regional Retirement System provided that the person earns at least two hundred dollars in a calendar year, and regardless of whether the person is employed more than twenty hours per week.

Credit for such service shall be calculated by using a fraction in which the denominator is 1000 and the numerator is the actual hours employed in a calendar year by the person. If the numerator equals or exceeds the denominator then the person shall be entitled to one year of creditable service per calendar year of actual service. If the numerator is less than the denominator then that fraction shall be multiplied by 12 to determine the number of full months of the creditable service the person is entitled to.

If the person receives a stipend or annual payment or compensation without a requirement of hours to be worked, then creditable service shall be determined by using a fraction in which the denominator is 2400 and the numerator is the amount of stipend paid or compensation received by the person in a calendar year. If the numerator equals or exceeds the denominator then the person shall be entitled to six months of creditable service per calendar year of actual service. If the numerator is less than the denominator then that fraction shall be multiplied by 183 to determine the number of days of the creditable service the person is entitled to.

Hampden County Regional Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

VII. TRAVEL REGULATIONS APPROVED ON 10/18/02.

Travel regulations approved by PERAC are on file.

This regulation established rules for membership of less than full time, appointed officials and is consistent with the provisions of G.L. c. 32.

The following rule is not approved for the reasons stated below.

The person so appointed must elect to join the Hampden County Regional Retirement System within ninety days of the date of appointment.

Employees who are eligible for membership in the retirement system based on supplemental regulations of the system are required to become members. Only elected officials, pursuant to G.L. c. 32, § 3(2)(vi), are allowed to chose whether to apply for membership in the retirement system. Since the above-quoted proposed regulation conflicts with the provisions of G.L. c. 32, it cannot be approved.

Hampden County Regional Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Chairman/Treasurer who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Richard M. Theroux

Appointed Member: Karl J. Schmaelzle Term Expires: 12/31/08

Elected Member: Patricia C. Donovan Term Expires: 12/31/07

Elected Member: Laurel A. Placzek Term Expires: 01/01/07

Appointed Member: Patrick E. O'Neil Term Expires: 12/02/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$50,000,000
Elected Member:)	AMITY INSURANCE
Appointed Member:)	Employee Dishonesty \$1,000,000
Staff Employee:)	

Hampden County Regional Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Buck Consultants, LLC** as of **January 1, 2004**.

The actuarial liability for active members was	\$143,710,452
The actuarial liability for retired mbrs, non-vestee & terminated was	151,089,211
The total actuarial liability was	\$ 294,799,663
System assets as of that date were	187,556,932
The unfunded actuarial liability was	<u>\$107,242,731</u>
The ratio of system's assets to total actuarial liability was	63.6%
As of that date the total covered employee payroll was	\$69,403,424

The normal cost for employees on that date was 8.00% of payroll

The normal cost for the employer was 5.30% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.50% per annum

Rate of Salary Increase: 4.50% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2004	\$187,556,932	\$294,799,663	\$107,242,731	63.6%	\$69,403,424	154.5%
1/1/2001	175,985,360	241,080,485	65,095,125	73.0%	65,470,839	99.4%
1/1/1999	153,484,932	207,750,431	54,265,499	73.9%	54,386,183	99.8%
1/1/1998	146,526,758	231,296,126	84,769,368	63.4%	85,083,873	99.6%
1/1/1996	105,376,986	178,574,265	73,197,279	59.0%	74,463,957	98.3%

Hampden County Regional Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Superannuation	56	47	48	59	56	43	54	45	71	63
Ordinary Disability	0	2	1	4	1	1	1	2	0	0
Accidental Disability	6	4	6	5	5	4	5	3	3	2
Total Retirements	62	53	55	68	62	48	60	50	74	65
Total Retirees, Beneficiaries and Survivors	1,360	1,374	1,390	1,412	1,423	1,426	1,418	1,419	1,422	1,423
Total Active Members	3,156	3,162	3,246	2,403	2,436	2,557	2,600	2,585	2,547	2,500
Pension Payments										
Superannuation	\$6,732,376	\$6,918,280	\$7,466,929	\$7,612,885	\$8,148,501	\$8,786,162	\$9,244,607	\$9,715,087	\$10,691,474	\$11,594,197
Survivor/Beneficiary Payments	638,865	638,783	667,619	655,725	656,658	660,699	741,041	665,289	690,571	706,330
Ordinary Disability	214,677	218,442	213,022	242,209	268,801	295,707	291,615	309,022	324,966	307,352
Accidental Disability	1,435,685	1,549,960	1,621,095	1,738,780	1,845,736	1,984,835	2,070,011	2,189,654	2,276,812	2,191,743
Other	<u>1,158,142</u>	<u>1,439,010</u>	<u>1,377,875</u>	<u>1,610,278</u>	<u>564,370</u>	<u>573,255</u>	<u>541,486</u>	<u>2,633,502</u>	<u>2,125,601</u>	<u>2,499,811</u>
Total Payments for Year	<u>\$10,179,745</u>	<u>\$10,764,475</u>	<u>\$11,346,540</u>	<u>\$11,859,877</u>	<u>\$11,484,066</u>	<u>\$12,300,658</u>	<u>\$12,888,760</u>	<u>\$15,512,554</u>	<u>\$16,109,423</u>	<u>\$17,299,433</u>

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